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 TAGS: [PTER](#) [PREL](#) [EFIN](#) [ETRD](#) [ETTC](#) [PARM](#) [PGOV](#) [IR](#) [MY](#) [KNNP](#)
 SUBJECT: MALAYSIA: SPECIAL ADVISOR ON NONPROLIFERATION AND
 ARMS CONTROL ROBERT EINHORN'S MEETING WITH SENIOR OFFICIALS
 AT MITI, CENTRAL BANK, AND ATOMIC ENERGY LICENSING BOARD,
 NOVEMBER 3-4, 2009

Classified By: Ambassador James R. Keith, reason 1.4 (b) and (d).

11. (C) Summary: In November 3-4 meetings with senior Atomic Energy Licensing Board (AELB), Ministry of International Trade and Industry (MITI), and Bank Negara officials, Special Advisor for Nonproliferation and Arms Control Robert Einhorn discussed the importance of Malaysia adopting an export control regime and more closely scrutinizing the activities of third countries seeking to use Malaysia as a transshipment point for material used in nuclear and missile programs. Deputy Trade Minister Mukhriz told the delegation that Malaysia may present to parliament its long-awaited export control export bill before the end of the year, with possible passage within six months. According to the AELB, the GoM is in the final stages of drafting a nuclear regulatory bill which will give the AELB sole authority to monitor nuclear material. The U.S. delegation informed Malaysian officials of the U.S. plan to imminently sanction Iranian Bank Mellat's Malaysian subsidiary First East Export Bank (FEEB) (Note: Treasury formally announced the designation of FEEB on November 5. End Note.) The Malaysians indicated they would not unilaterally revoke FEEB's conditional operating license, but that they are prepared to suspend it if there is direct evidence the bank had violated the conditions of its charter, including conducting financial transactions with UN-sanctioned companies. End summary.

U.S. Participants in Economic Meetings:

 Robert Einhorn, Special Advisor for Nonproliferation and Arms Control (S/SANAC)
 Ambassador Susan Burk, Special Representative of the President for Nuclear Nonproliferation
 Raymond "Pepper" Richhart, EAP/MTS Deputy Director
 Richard Johnson, Foreign Affairs Officer, S/SANAC
 Rob Gile, Foreign Affairs Officer, ISN/CPI
 Jennifer Fowler, Department of Treasury, Assistant Director for Strategic Policy, Terrorist Finance and Financial Crimes
 Kevin Kurland, Department of Commerce, Chief of Staff/Export

Administration

Matt Matthews, U.S. Embassy - Kuala Lumpur Economic Counselor
Brian McFeeters, U.S. Embassy - Kuala Lumpur Political
Counselor (not in MITI meeting)
Phillip Loosli, U.S. Embassy - Kuala Lumpur (notetaker for
AELB)
Dave Williams, U.S. Embassy - Kuala Lumpur (notetaker for BN)
Juha Salin, U.S. embassy - Kuala Lumpur (notetaker for MITI)

Meeting at AELB with AELB Chairman Noramly

13. (SBU) Special Advisor Einhorn and Special Representative of the President for Nuclear Nonproliferation Amb. Susan Burk had a very constructive meeting with Malaysia's Atomic Energy Licensing Board (AELB) Chairman Noramly Muslim and Director General Raja Aziz on November 3, who was joined by Raja Abdul Aziz Raja Adnan, AELB Director General, Yeoh Siong Hu, AELB Assistant Director, and Izzatul Shima Md Thahir, Ministry of Science, Technology and Innovation Principal Assistant Secretary. Following Einhorn's broad overview of the Obama Administration's non-proliferation policy, Noramly laid out AELB's role in Malaysia's export control system and its ability to control transshipments. Noramly advised that the GOM is in the final stage of reviewing a new nuclear regulatory bill, which he expects to pass Parliament in 2010.

He acknowledged that the AELB currently operates under the 1984 Radioactive Substances Act (RSA), which does not adequately cover a broad range of proliferation-related activities. He noted that AELB has little oversight for the transshipment of dual-use technology (although it does control reexports), except when the supplier voluntarily informs it, and called for development of a mutual recognition agreement with suppliers to notify the GOM of sensitive shipments to free trade zones. Noramly indicated that under the new nuclear bill, AELB will become the sole regulatory authority for nuclear material, delegating some authority to the Ministry of Health as appropriate.

14. (C) Noramly explained that AELB was also playing a key role with regard to Malaysia's long pending export control legislation, with Raja Aziz chairing a cross-agency committee developing a list of dual-use ("strategic goods") items, given its technical advisory role to MITI for evaluating end-use/users for direct-use nuclear items under the RSA. (Note: In a sidebar, Noramly claimed to be "looking" at the four multilateral export control lists as a basis for the strategic goods list but said a decision on such issues was for MFA to decide, since AELB is only a technical reviewer.) Noramly and Raja Aziz noted the lack of capacity and expertise within Malaysia to identify items that might be problematic, especially given Malaysia's lack of experience in the nuclear field. They requested U.S. assistance in helping AELB evaluate photographs of questionable materials for confirmation of their dual-use nature. Malaysia, he said, is hoping to continue to build its capacity through linkages with the United States. Raja Aziz has been given authority to sign a letter of intent with the National Nuclear Safety Administration (NNSA) of the Department of Energy. Noramly will be traveling to the United States later this month and plans on meeting with Texas A&M University to establish a training and education relationship through their program.

15. (SBU) On the subject of international nuclear fuel banks, Raja Aziz assured Einhorn that AELB does not need convincing of the merits of this idea. Noramly added that while AELB has favorably considered the notion of a regional fuel bank, there were political complications with such an arrangement. Raja Aziz noted that Malaysia is generally supportive of the concept, differing from most of its Non-Aligned Movement (NAM) colleagues. Nevertheless, Noramly and Raja Aziz said that they would not be able to help the United States push other NAM countries on this issue until the Prime Minister signed off on Malaysia's domestic policy plan to develop nuclear power, which should occur next year in conjunction with passage of the nuclear bill. Noramly said Malaysia's own civilian nuclear power ambitions are dependent on clear

directions from the PM, which he expects "very soon." Noramlly told Einhorn that the local utility company, Tenaga Nasional Berhad (TNB), is already laying the groundwork and Noramlly mentioned a timeframe of 10-15 years for the first power plant with one to four plants planned.

¶16. (C) Einhorn asked for AELB's assistance in pushing other GOM ministries to become more open to cooperation with the United States or other partners on nonproliferation issues. Noramlly responded that this "will take time" because the other ministries have little understanding of the complex issues involved with nuclear safeguards. Einhorn told AELB that the USG has given a "good proposal" to the Iranians but current signs from their side are not positive. He also reiterated the United States' interest in offering technical training and assistance to Malaysia on export control issues, adding that U.S.-sponsored Commodity Identification Training could assist the AELB in its request for photographs to help evaluate dual-use items being exported from Malaysia.

Meeting at the MITI with Deputy Minister Mukhris Mahathir

¶17. (C) Special Advisor Einhorn opened his meeting with Deputy Minister for International Trade and Industry (MITI) Mukhris Mahathir (former PM Mahathir's son) on November 3 with a review of the Obama Administration's approach on non-proliferation issues, including its outreach to efforts to Iran. Einhorn emphasized the high importance the Obama administration placed on the need for all countries to work together in reducing nuclear threats, and strengthening international non-proliferation and counter-proliferation regimes. He asked that Malaysia, as a leader in ASEAN and the OIC, and as current chair of the IAEA Board of Governors, play an active role in this process.

¶18. (S) Deputy Minister Mukhriz, joined by Nik Rahmat Nik Taib, Senior Director, Sectoral Division, Tay Lee Looi, Director, America and Europe Section and Razman A. Samah, Director, Import/Export Control Section, thanked Special Advisor Einhorn for the new information he passed to MITI about Iranian-affiliated entities operating in Malaysia that the USG alleges are facilitating proliferation-related activity. He promised that the GOM would look into these cases and the specific entities. Mukhriz said that GOM shared USG concerns about Iranian companies possibly exploiting Malaysia as a transshipment platform, or misusing Malaysia's financial system. He said that while Malaysia shares the same concerns and often the same goals as the United States, our approaches in some cases may be different.

¶19. (C) Einhorn stressed the importance of Malaysia passing its draft export control law and reiterated that the United States wanted to work actively with Malaysia on export control capacity building. He pointed out that while countries often were concerned that the implementation of export controls would hurt competitiveness, the opposite was the case, as Hong Kong and Singapore had discovered. Einhorn pointed out that Malaysia's delay in passing an export control law was making it a target for those trying to circumvent export control restrictions, and there was concern that Malaysia was becoming the "new Dubai" for illicit traders. Mukhriz reviewed the progress of Malaysia's export controls legislation, indicating that the proposed law was being reviewed by three subcommittees: the MFA for policy, the Atomic Energy Licensing Board (AELB) for technical issues, and Attorney General's office for legal and regulatory issues. He said that MITI has submitted comments on the bill to the Attorney General's office, and that the bill may be tabled in the parliament before December 23. He said that he hoped that the law would receive royal consent by the Malaysian King and go into force within the next six months. That would enable Malaysia to "act more decisively" on cases involving abuse of the trade and financial system.

¶10. (C) On technical capabilities related to export controls, Mukhriz noted that some specialized detection equipment can be quite expensive, so Malaysia could consider working

together with the U.S. He agreed with the need for strong enforcement to accompany the law, but also noted that the establishment of new laws can be an effective preventive measure in and of itself if explained well to the public. Einhorn reiterated that the United States was ready to assist Malaysia to build its export control operational and enforcement capacity. Ambassador Keith said that we were prepared to offer any training in this area that Malaysia thought would be useful.

¶11. (C) Commenting on possible Iran sanctions, Mukhriz said that history proved that sanctions had limited success because they did not hurt just the ruling government, but often punish the people as well. With regard to commercial sanctions, he said that other countries would "be ready to fill the vacuum" created by firms honoring a ban. Nevertheless, he said that Malaysia was committed to non-proliferation. Einhorn agreed that sanctions were most effective when they were held as a threat, but he noted that the United States was looking to have a normal relationship with Iran if its intentions were peaceful and it was ready to meet the United States halfway. The GOM could help by engaging Iran because Iran would listen to Malaysia on these issues.

Meeting at Bank Negara with Deputy Governor Zamani

¶12. (C) The delegation met November 4 with Bank Negara (BN) Deputy Governor Zamani Abdul Ghani to discuss BN programs to counter proliferation finance in Malaysia and to inform BN that the United States planned to designate Iranian Bank Mellat's Malaysian subsidiary First East Export Bank (FEEB) on November 5. Zamani, who was joined by Abdul Rahman Abu Bakar, Manager, Financial Intelligence Unit, told Einhorn and Treasury's Fowler that FEEB had been issued Malaysia's only conditional bank license and that if FEEB violated any of the license's three conditions, the Labuan Offshore Financial Services Authority (LOFSA) stood ready to immediately revoke its license. However, the GOM was not prepared to unilaterally revoke FEEB's license without cause, as that would violate the Malaysian Federal Constitution as a taking of private property, according to Zamani. He emphasized LOFSA monitors each inflow and outflow at FEEB and BN thoroughly monitors FEEB onshore accounts as well. LOFSA Senior Director for Bank Supervision Iskandar Mohd Nuli revealed that he was personally leading the FEEB supervisory team and that FEEB is listed as Malaysia's number one banking system security threat. The BN Assistant Governor for Legal Services added that BN stood ready to act to close FEEB on evidence of FEEB criminal activity or that FEEB broke one of the conditions of its license that would stand up in a Malaysian court. The evidence could not be protected as classified. Zamani was clear that it would "make my day" if the United States were to provide BN proof positive of illicit FEEB activities or get Bank Mellat designated by the United Nations, removing his biggest supervisory headache.

¶13. (C) When addressing U.S. concerns regarding the potential for Iran and North Korea to use Malaysian trade and financial institutions to proliferate, Zamani said he understood that one nuclear weapon transshipped through a Malaysian port or financed by a Malaysian bank would cause grave damage to Malaysia, the world's 20th largest trading nation. Zamani listed BN leadership in FATF and Egmont as illustrating Malaysian desire to remain compliant with global anti-money-laundering (AML) and counter-terrorist-financing (CTF) standards. BN Financial Intelligence Unit (FIU) Deputy Director Woon Hooi Shyen gave numerous examples of FIU circulars issued to banks requiring enhanced due diligence on all North Korean and Iranian entities. Woon added that all transactions red flagged as high risk were sent to the FIU for review and many banks had ended customer relationships with North Korean related firms based on customer high risk profiles. She added, however, that BN could find "no matches" in Malaysia to the UN-designated or other companies named in information passed by U.S. Coordinator for Implementation of UNSCR 1874 Philip Goldberg during his June

visit to Kuala Lumpur. (Note: In a separate meeting with Fowler, FIU officials clarified that although there were no exact matches, they had discovered an account in different name that they believed belonged to a North Korean entity of concern) Special Advisor Einhorn passed new information about Iranian transshipment and banking activities to BN officials, most of which BN acknowledged as new information, though it said it was aware of one of the companies.

¶14. (C) Malaysia's FIU arranged separate meetings for Fowler with executives from Maybank and CIMB to provide them with information relating to Iranian proliferation activity possibly occurring through their banks. Fowler met with Mad Yusof Yazid, executive vice president of Maybank, and passed information indicating that Iranian proliferation firms Evertop Services and Skylife Worldwide used Maybank to conduct business possibly associated with Iran's missile program. Yazid said he would check whether Skylife was doing business with Maybank, and indicated that Maybank had received a subpoena at its branch in New York relating to Evertop Services. Yazid said Maybank had determined that Evertop held an account at Maybank, had visited the company's address and found that the company was not located there, and had closed Evertop's account. Yazid said that Maybank was planning to cooperate with the subpoena, even though the account was not located in the United States. Fowler also followed up with Yazid regarding information the U.S. passed to him in July regarding a possible account belonging to Tanchon Commercial Bank at Maybank in Labuan. Yazid said he had personally visited Maybank in Labuan to check on the information, and determined that an account that likely belonged to Tanchon was operating under a different name there. Maybank and Malaysia's FIU were preparing a detailed report on this account to provide to the United States through FIU channels. Yazid said that, across the board, Maybank was checking any accounts related to Iran or North Korea to determine if they had a legitimate economic purpose and, if not, Maybank was closing those accounts. Fowler also met with Shamsuddin Ali Hussin, vice president of CIMB, to pass information indicating that Evertop and Microset Systems had used CIMB. Hussin said he would follow up on this information and would report back on the results through Malaysia's FIU.

¶15. (U) Special Advisor Einhorn and his delegation cleared this message.

KEITH